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RUEHLO/AMEMBASSY LONDON PRIORITY 4163  
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RUEKJCS/SECDEF WASHDC PRIORITY  
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C O N F I D E N T I A L KATHMANDU 001652

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SUBJECT: MAOISTS CREATE HOSTILE ENVIRONMENT FOR BUSINESS IN  
NEPAL

Classified By: Ambassador James F. Moriarty. Reasons 1.4 (b/d).

Summary  
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¶1. (C) According to local businessmen, Nepal is becoming a less hospitable business environment each day as the political turmoil continues and the possibility of the Maoists entering the government increases. Nepali businessmen assert that the Maoists can not be trusted and many businesses are considering transferring operations to another country. Both businesses and individuals are moving their assets overseas to hedge against future developments.  
End Summary.

Looking to Move Abroad...  
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¶2. (C) A number of businessmen told us recently that businesses in Nepal were losing hope and looking for ways to move their operations abroad as Maoist pressure rose. Rajendra Prasad Khetan, Vice-President of the Confederation of Nepalese Industry and a major industrialist himself, went with a group of businessmen to see Home Minister Krishna Sitaula a few weeks ago to seek advice about Maoist extortion, which has markedly increased since the cease-fire. Sitaula reportedly told them to go talk to Maoist leader Krishna Bahadur Mahara because Sitaula could not do anything for them. This interaction led the businessmen to question who was in charge of the current government.

¶3. (C) One businessman commented that others were already moving their money to other countries and making plans to leave Nepal if the situation worsened. Banwari Lal Mittal, former President of the Nepal Chamber of Commerce, said that some of the big businesses in Nepal were looking for opportunities in India, Sri Lanka, the Maldives, and the United Arab Emirates. Khetan informed us that big businesses in Birgunj and Biratnagar (cities on the border of Nepal and India) looked to relocate across the border to India soon. That said, five businessmen separately stated that, although they would like to move abroad quickly, the laws in Nepal involving capital transfers to foreign currency did not allow for a quick or easy move.

¶4. (SBU) Post's Consular Section has reported a dramatic

increase in corporate and individual accounts held in foreign banks. In the last few weeks, students, businessmen, and others have presented bank statements from foreign banks instead of the usual local banks. Moreover, people are reportedly pretending to apply for schools just to transfer large amounts of Nepalese currency into foreign currency at banks. (Note: A provision of Nepalese law allows students studying abroad to transfer and transport large amounts of foreign currency out of Nepal; otherwise transfer of funds is limited to USD 2000 per traveler per year. End Note.) A source told us that the line for exchanging foreign currency at the local bank was longer than she had ever seen it, implying that many people were trading Nepalese currency for foreign currency.

#### Hope for a Solution Fading Fast

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15. (C) Shyam Mohan Khetan, Vice-President of the Nepal Garment Association, said he still had some hope the business situation in Nepal would improve. However, most businessmen with whom we spoke had lost hope and were looking for a way out. Even Khetan, however, acknowledges that there was a "growing sense of pessimism in the entire business community in Nepal." Anil Kedia, owner of a sugar factory and a carpet manufacturer, commented that the government did not seem to know what to do and was simply giving the Maoists whatever they asked for without giving thought to how it might affect the business community.

#### Foreign Direct Investment at Risk

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16. (C) According to media reports, foreign direct investment (FDI) is also at risk in Nepal. According to Dr. Dilli Raj

Aryal, statistician at the Nepal Department of Industry and Foreign Investment, FDI had decreased nearly 50 percent since 2000. One foreign director of a hydropower project in Nepal said that "major financiers and insurers still view Nepal as a very, very high risk country and there remains little appetite for investments." Mittal told us there were better investment opportunities in India and other countries, and that it made more sense to invest there than in Nepal. Another source told Emboff that because of the frequent changes in government and the inconsistency in policies, no one wanted to take a chance on investing in Nepal.

#### Comment

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17. (C) The business environment in Nepal seems to be deteriorating. The business community does not trust the government and Maoists to come to a negotiated agreement that will benefit Nepal's businesses, and so is actively exploring ways to get money out of the country. If a Maoist-dominated government comes into power, it seems likely that businesses, and possibly individuals, will flee rather than try to work within a new system. While Nepal is still primarily a subsistence agriculture economy, its industrial base has provided employment to the growing number of poor flocking to the cities. If Nepali businesses leave or choose to invest outside Nepal, the Nepali economy will suffer, further hurting the poorest of Nepal's poor.

MORIARTY